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NIAGARA BASIC POWER USERS COMMITTEE

RE-STATEMENT OF THE IMPACT OF
INCREASING ELECTRIC POWER COSTS

FEBRUARY, 1962



NIAGARA BASIC POWER USERS COMMITTEE

RE-STATEMENT OF THE IMPACT OF
INCREASING ELECTRIC POWER COSTS

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NIAGARA BASIC POWER USERS COMMITTEE

P.O. Box 330

NIAGARA FALLS, ONTARIO

Atlas Steels Limited
The Beaver Wood Fibre Company
Canadian Carborundum Company Limited
Cyanamid of Canada Limited
Union Carbide Canada Limited
Metals and Carbon Division

The Exolon Company
Lionite Abrasives Limited
Norton Company
Electro-Chemical Division
The Ontario Paper Company Limited

RE-STATEMENT OF THE IMPACT OF INCREASING ELECTRIC POWER COSTS

I SUMMARY OF CASE

The Committee representing nine long-established heavy power-using industries in the Niagara area has been engaged for the past two years in a most serious effort to bring about a realization on the part of The Hydro-Electric Power Commission of Ontario, and the Government of Ontario, of the most serious situation in which these industries find themselves because of high power costs.

We feel that our requests, as detailed herein, are reasonable and worthy of your consideration.

We are an important factor in the economic and business life of Ontario and of Canada.

Some of our members are seriously considering development outside Ontario.

A re-allocation of costs would support reduced rates to our group.

We respectfully request a clear statement of Government policy on basic industry power costs.

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The Niagara Basic Power Users are seriously concerned about:

- (a) the rate at which power costs have risen since 1950, and the high level at which they now stand;
- (b) the present precarious position in which these industries find themselves;
- (c) what must result in the future should this trend continue.

Hydro and Government should recognize the special situations of the member companies by -

- (1) seeking ways to reduce power rates, and
- (2) curbing future increases in power rates.

The precise method to be adopted can best be determined and identified by the Government and by Hydro. It should not be for this group to specifically point to the method to be adopted.

However in the past we have specifically requested:

1. Establishment by Hydro of a 25 cycle Niagara district for which costs would be separately determined. This would permit a scale of rates based on costs applicable to this separate group of industrial users.
2. Contracts with rates fixed for periods of ten years instead of five years as proposed at present.
3. Inclusion of references to strikes in the 'force majeure' clause which waives the minimum bill provision of the contracts.

To summarize, Hydro should institute a policy of rate calculation more equitable than the existing one, thus reducing rates, and the rates so established should be fixed, or limited in their increases by long-term contracts, thus permitting these companies to carry on and expand in the Niagara area.

II HISTORICAL BACKGROUND

The Niagara Basic Power Users Committee is composed of nine large companies operating manufacturing plants which are concentrated in six municipalities located in the county of Welland within twelve miles of the Niagara Falls Power Stations from which they draw most of their power.

The nine companies comprising the Niagara Basic Power Users Committee are listed below, with their locations:

<u>Company</u>	<u>Location</u>
Atlas Steels Limited)	City of Welland
Union Carbide Canada Limited,)	
Metals and Carbon Division)	
The Beaver Wood Fibre Company)	Thorold Township
The Exolon Company)	
The Ontario Paper Company Limited)	
Cyanamid of Canada Limited - Niagara Plant	City of Niagara Falls
Canadian Carborundum Company Limited)	Stamford Township
Cyanamid of Canada Limited - Welland Plant)	
Lionite Abrasives Limited)	
Norton Company Electric Furnace Plants	Village of Chippawa

Each of these companies uses large quantities of electric power in its manufacturing process.

Of the nine companies, seven were established prior to or during World War I. The other two were established in 1928 and 1930. Because these companies were close to the source of power, Hydro or its predecessor companies incurred comparatively little in the way of expenditures on transmission facilities to serve these industries and the associated communities.

For all of these companies electric power is more than a plant service; it is a raw material, and a prime factor in their production processes. This is borne out by the fact that during World War II most of these industries were 'designated' and given a high priority to essential power supply in the interests of the war effort. For the majority of these companies, power represents between 15 and 25 per cent of total manufacturing cost. For these reasons an abundant supply of power was and still is of vital importance for production of manufactured products at a cost which is competitive in world markets. The attraction of the Niagara Falls area as a location for Niagara Basic Power Users was a large supply of power at reasonable rates.

Since the power companies had initially a large surplus of power, the establishment of Niagara Basic Power Users was welcomed, the more so because of the limited investment required for transmission and transformation equipment. The disposal of the surplus power was necessary before further expansion could take place and was, therefore, fundamental to the development of Hydro and its predecessors.

This situation was entirely different from other parts of the Province of Ontario where large users located their plants and had power brought to them, sometimes over considerable distances, involving a substantial investment in transmission facilities.

Niagara Basic Power Users in establishing their companies anticipated that, with the low investment required for transmission and transformation facilities and the large amounts of power purchased, amortization of the total

investment by the power companies would occur sooner than would normally be the case and low power rates would continue to be available.

Our committee was formed in 1959, its main objective being to bring to the attention of the proper authorities the result of the rapid increases in electric power rates in recent years and to urge upon them the need for action to correct this situation.

Early in 1960 a brief was submitted to Hydro drawing attention to this situation and requesting that consideration be given to the general policy under which power rates for the member companies are determined. In its reply of April 12, 1960, Hydro stated that the present policy of calculating rates on a uniform basis precludes the adoption of preferential rates for a specific group of power users.

Because of the serious effects of such a policy on the industries comprising the Niagara Basic Power Users, the Committee decided to have a further study made of the situation and a report prepared for submission to the Government of the Province of Ontario. This report was completed in October 1960 and presented to Premier Frost. As a result of this submission, Hydro was again asked to examine our case and some concessions were granted. These concessions can be summarized as follows:

1. New classes of interruptible power were established and made available at lower rates than previous interruptible power, although the cost to the user might be higher or lower depending upon the degree of interruption and the proportion of firm and interruptible power the customer was permitted to utilize.

2. Contracts providing fixed rates for five years in lieu of the ten year period requested by our Committee.
3. Hydro further advised that our proposals had been given sympathetic consideration and that they had done their best to meet our problems within the framework of their responsibility under the provisions of the Power Commission Act.

It is the purpose of this statement to update and present the situation facing the Niagara Basic Power Users in the light of increasing power costs. It has been clear from statements made in the Legislature by the Minister of Energy Resources that the Minister believes our industries are presenting sincere facts and not merely relating a 'sob story'. However, it is also clear that we have thus far failed to convince the Minister of the seriousness of our problem, that we must receive assistance if we are to continue in business.

III ECONOMIC IMPORTANCE OF BASIC POWER CONSUMERS

Most of the member companies have been established in the Niagara region for some fifty years. The influence of our long-established companies in the Niagara area is widely felt through the employment of some 9,400 persons, a combined salaries and wages payroll of \$44,000,000 per annum, payment of municipal taxes of \$1,400,000 per annum and the purchase of goods and services in Ontario of some \$68,000,000 annually. In addition, annual electric power consumption approximates \$10,000,000. The average annual capital investment by this group of companies amounts to \$7.2 million based on the record of the past ten years.

Employment

To the total of 9,400 of our own employees and pensioners must be added the number of jobs created through service industries and local government related to our industries. A reasonable ratio is two service employees to one production employee. On this basis, therefore, a total of some 27,000 jobs in the Niagara area stems from the presence of our industries there. It is very important to the economy of the Niagara area to maintain the present level of employment in the industries of our member companies and in the related support industries.

Unemployment, which is already a serious problem in the Province of Ontario, is being aggravated in the Niagara area by the added factor of increasing electric power costs. This is a problem which will become increasingly serious unless a new policy is developed on power rates.

It is important to recognize the ability of Niagara Basic Power Users to maintain consistent employment throughout the year as contrasted to

the seasonal fluctuations caused by other employers, such as the tourist trade, agriculture and certain manufacturing industries, such as automotive and construction. Our group exerts a strong stabilizing effect on employment levels and, therefore, on the economic activity and general welfare of the area.

Importance to Economy of Niagara Area

In addition to employment which our companies provide, the following factors should be kept in mind when relating our existence to the economy of the Niagara area. Availability of electric power is the major reason for our presence in the area. In general, raw materials other than energy are brought in and products are taken out of the area. Power sites closer to the raw material supply or product markets would have been more desirable if it were not for the effect of lower power costs when these industries were established.

In addition to the salaries, wages and pensions paid by these companies to workers and their dependents in the area, the nine companies pay taxes to six municipalities totalling over \$1,400,000 annually. This contribution amounts to approximately 15 per cent of the total taxes levied by these municipalities.

Importance to Ontario

This group spends some \$68,000,000 annually in Ontario on raw materials and services, excluding electric power. Therefore, when one adds the approximately \$10,000,000 of electric power purchased by the member companies one reaches a total of some \$78,000,000 annually spent on items used in plant operations. Another way in which these companies contribute to the economic life of Ontario is in the payment of corporation and business

taxes. In the last ten years capital investment in plant equipment and facilities has amounted to \$72,000,000. Much of this money was spent in Ontario for construction, equipment and facilities. Very important also is the encouragement of secondary industry which naturally settles close to basic industries which supply them.

Importance to Canada

In addition to making substantial sales in Ontario and the rest of Canada, the Niagara Basic Power Users are also engaged in selling to export markets. Three of the companies export over 90 per cent of their production to the U.S.A., while several others which are interested in many markets sell up to 45 per cent of their products to the U.S.A. In this way these companies make a valuable contribution to Ontario's position as an important earner of U.S. funds and to Canada's problem of balancing its foreign exchange transactions. It is estimated that the total annual export sales of these nine companies amounts to \$105 million.

IV ELECTRIC POWER RATES

Until 1949 Niagara Basic Power Users believed their treatment by Hydro was reasonable. Since then the policy of pooling costs is having and will continue to have a far-reaching effect on the operations of the member companies. Many of these companies are competing with foreign products in home and export markets; selling prices are set by competition, not by production costs, and the present trend in power rates affects the ability of these companies to meet this competition and carry on their operations in their present locations. In addition, it is highly desirable that companies should be able to forecast their power costs for several years ahead when planning future operations. To do this requires long-term contracts or at least defined limitations with respect to future increases.

The current policy of pooling primary generation and transmission costs throughout the Southern Ontario System has resulted in inequality of treatment which favours industrial users and municipalities in other parts of the Province to the detriment of the Niagara Basic Power Users.

The attraction of the Niagara area to the Niagara Basic Power Users was a plentiful supply of low cost power at rates lower than those obtainable elsewhere.

In the fifty-year period in which members of Niagara Basic Power Users have been established in the area, power rates have risen steadily. Rates now paid average in excess of 4.7 mills. This means that rates increased 100 per cent in the first forty years and a further 41 per cent in the next ten years of the existence of these companies. This rapid increase of 41 per cent in the past ten years is the major cause of concern on the part of Niagara Basic Power Users.

There are several ways of examining these increases but the most important fact to emerge is that the average rate has now exceeded 4.7 mills and has become an increasing burden on production costs, so much so that the competitive position of the member companies is becoming impaired.

Regulation of Rates

In addition to being the principal supplier of power in Ontario, Hydro appears to be the only body possessing authority to regulate rates for the sale of power to its customers. There is no separate regulatory body such as an electricity board or a public service commission in Ontario. Section 68 (1) of the Power Commission Act gives the Commission power to contract with persons, in addition to municipal corporations, 'upon such terms and conditions as the Commission may deem proper', with no machinery provided for appeals from the decisions of the Commission.

Change in Rate Policy

Until recently Niagara Basic Power Users had long-term contracts. These contracts fixed rates at specific levels or tied them to the rate increases of local municipalities. Throughout the past several years, on dates when the various power contracts expired or were due for revision, it has been the policy of Hydro to increase rates. In some instances, this has resulted in rate increases of such magnitude as to have completely nullified the advantages which originally attracted the companies to the Niagara area.

This situation has come about as the result of the adoption by Hydro of a policy of uniform rate determination, whereby the rates paid by all direct and wholesale users throughout the Southern Ontario System do not recognize their distance from or proximity to the generating facilities.

The Government has recently announced its intention to enact legislation providing for the amalgamation of the Southern Ontario System with the Northeastern and Northwestern Regions. This would bring about a financial consolidation of these three systems which would result in the pooling of costs and uniform rates throughout the Province. This would be a further and complete extension of the undesirable condition already existing in the Southern Ontario System. We would then have the ultimate in overall pooling of costs and uniform rates to the further detriment of the Niagara Basic Power Users.

This policy of pooling costs ignores the fact that Niagara Basic Power Users have, for a long period of years, been good customers of Hydro and its predecessors during which they materially assisted in the amortization of the generating and transmitting facilities by which they are supplied. While it may be argued that wholesale customers in the area also consume quantities of power, it should be noted that in 1959 Niagara Basic Power Users accounted for an average of 88.6 per cent of all power consumed in the municipalities in which they are located.

From this fact it is evident that over the years Niagara Basic Power Users have contributed the major portion of revenue towards the cost of facilities supplying the Niagara area.

It cannot be emphasized too strongly that the effect of power increases on the competitive position of Niagara Basic Power Users is extremely injurious. An indication of the serious effect of Hydro's rate policy is that during the past thirty years the non-availability of low cost electric power has resulted in no major industrial power user being attracted to the Niagara area.

Effect of Transmission Cost on Rate Structure

As far as can be determined, there is no other important example in Canada of the adoption of a policy of pooling costs throughout a system. On the contrary, there are many examples of utilities serving industrial customers on the basis of a scale of rates set according to the distance of customers from the generating facilities. This means the transmission costs are considered as a separate element of cost in constructing electric power rates for industrial users.

Consumers operating under these conditions have an advantage over those who operate under a pooled cost policy. An example of this is obtained by comparing the average rates charged to the Niagara Basic Power Users with those of the Beauharnois System of the Quebec Hydro-Electric Commission, which maintains a policy of regional rates. The two situations are analogous since both areas are close to a large supply of hydro-electric power.

The power consumption of Niagara Basic Power Users is mainly 25 cycle which is transmitted over facilities entirely separate and distinct from the 60 cycle system. Despite this, the rates paid by Niagara Basic Power Users have contributed to the province-wide transmission costs, all of which are now 60 cycle outside the Niagara area.

The policy of pooling costs has the effect of spreading the system-wide costs of high transmission and transformation equally among all customers, including those for whom actual transmission costs are negligible. In effect, this means that the heavy industries of the Niagara area are subsidizing other industrial areas in the province where competitors' operations may be located.

Therefore, it can only be concluded that it is reasonable to recognize transmission costs as a separate element of cost when constructing electric power rates, particularly for large industrial users. Power rates to users located through choice in close proximity to generating plants for the purpose of having this benefit should be lower than rates to users at great distances from the generating facilities. The lower rates would take into account the smaller investment in transmission facilities involved and the extent to which they have previously been amortized.

Projected Effect of Future Rate Increases

The policy of pooling costs adopted by Hydro in recent years, with its consequent rate increases, will have a far-reaching effect on the growth and development of Niagara Basic Power Users, and therefore on the development and welfare of the Niagara area in particular and the Province of Ontario in general.

Several of the member companies of the group have already reluctantly considered expanding their operations in areas away from Niagara and possibly outside Ontario. Higher Canadian manufacturing costs will force industry to move existing production to new facilities even outside of Canada. Threat of obsolescence of existing processes by technological advances with lower power usage now can only be offset by lower power costs in addition to higher efficiency. A company cannot pay non-competitive prices for its raw materials and remain in business; in effect, this is what the member companies will be attempting to do in their present locations if lower cost power is not available now and if it continues to increase in the future.

V SEPARATE 25 CYCLE SYSTEM

The basic principle governing financial operations of Hydro and its associated municipal electrical utilities is that service is provided at cost. As 25 cycle power is being generated and transmitted by separate facilities, it must be practical to establish a method of cost allocation which would enable the determination of costs for a separate 25 cycle Niagara District. Hydro is already required to determine the actual cost of service each year to each of the many municipal utilities. It seems reasonable to cost separately a 25 cycle Niagara District made up of the Niagara Basic Power Users.

The only 25 cycle power being generated in the Southern Ontario System today comes from the Ontario Power and Toronto Power generating plants which operate at 25 cycle exclusively, and from the Sir Adam Beck Niagara generating plant No. 1; it is understood that some 342,000 kw of the total dependable power of this latter plant represents 25 cycle power. All of these plants are in the Niagara area. The total dependable capacity of the Ontario Power and the Toronto Power plants is 243,000 kw. After adding the dependable 25 cycle capacity of the Sir Adam Beck Niagara generating plant No. 1, the total dependable 25 cycle capacity in the Niagara area is approximately 585,000 kw.

The combined average monthly peaks for 25 cycle power of the Niagara Basic Power Users approximates 300,000 kw. According to Hydro's annual report, sufficient capacity was left at 25 cycle to supply the needs of those customers located in the Niagara area. It can, therefore, be assumed that, except for emergencies, the 25 cycle power needs of these companies can be provided by the plants mentioned.

There seems little doubt that the operating costs of the Ontario Power and the Toronto Power generating plants can be determined separately by Ontario Hydro. Likewise, the costs of generating 25 cycle power at the Sir Adam Beck Niagara generating plant No. 1 should be available. Since it can be assumed that all the 25 cycle needs of the Niagara Basic Power Users can be provided by these three plants, it is only reasonable that these specific costs should be used when determining the rates to be charged for such power.

The 25 cycle system requires its own transmission lines and should, therefore, be costed as a separate system also.

Accordingly, it is recommended that serious consideration be given to the establishment by Hydro of a 25 cycle Niagara District for which costs would be separately determined. Calculation of costs related to generating and transmission facilities should be made on the basis of historical cost less accumulated depreciation.

It should also be mentioned that the assurance by Hydro of a supply of 25 cycle power is important. In fact, should it ever happen that the supply of 25 cycle power was discontinued, some of our members would automatically go out of business in the Niagara area.

VI BASIC POWER COSTS OUTSIDE ONTARIO

Cheaper power is available in other areas outside the Province of Ontario, including the Province of Quebec, other provinces of Canada, the area of western New York State close to Niagara Falls and the area in the Pacific Northwest United States served by the Bonneville Power Administration. In addition to power being available at lower rates, basic industrial consumers are offered contracts for periods of ten or more years. The rates in force recognize the low costs which result from locating industrial plants close to the power generating facilities. In addition, some suppliers of industrial power differentiate between rates charged to municipalities for wholesale supplies of power and rates charged to basic industry. In some cases, rates charged to industry are approximately 20 per cent below the rates charged to municipalities.

A summary of the conditions prevailing in areas outside Ontario is set forth below:

Province of Quebec:

Industrial power is available in the Province of Quebec for use by basic industry located close to generating facilities such as Beauharnois at rates less than 3 mills per kilowatt-hour. These contracts have been written for initial periods of ten years at the basic rate with revision at the end of ten years and then each five years thereafter. Even today power at less than 3 mills is being sold within the Province of Quebec where an industry can locate its plant close to Hydro generating facilities and away from built-up areas.

Province of Alberta

Utilities in the Province of Alberta offer preferential electric power rates to industrial users located close to generating plants and operating at a high load factor, thus providing maximum utilization of generating equipment. In addition, utilities in Alberta recognize transmission cost as a separate element when constructing power rates for industrial users. The close-in customer obtains power at a rate lower than one whose plant is located a great distance from the generating facilities.

New York State

An important characteristic of the New York State power situation is that all parties concerned, including the Public Service Commission, Niagara-Mohawk Power Corporation, other types of customers and finally the Congress of the United States, have all recognized that in order for basic industry to carry on and expand it must have the benefit of a special industry rate. In return for a high volume and high load factor consumption, industry thus receives a reasonable rate for power on a long term contract.

On August 27, 1957, after extensive hearings in Washington before a Senate Committee, the Congress of the United States passed an Act giving the Power Authority in the State of New York permission to construct new facilities on the U.S. side of the Niagara River to generate substantial quantities of electric power. As a result, two blocks of power totalling 745,000 kilowatts were set aside for use by industry in the Niagara - Buffalo area. This is a substantial quantity of power which has been

recognized as needed for industrial use in this area. It will be supplied by the New York State Power Authority to Niagara-Mohawk Power Corporation which in turn will sell it direct to the basic industries in Niagara Falls and Buffalo at a delivered price of 4.64 mills per kilowatt-hour. This is the price for 100 per cent load factor, 60 cycle firm power, delivered at a voltage of 115 kv, and includes all charges, taxes, etc. This price is based upon selling power to industries at cost plus sufficient to service the debt of the Power Authority and to recompense Niagara-Mohawk Power for its transmission charge. On the basis of gradually retiring the debt of the Power Authority over a period of years this price will gradually decrease. It is expected that the contracts will be written for a period of twenty years with periodic price revisions every five years. The formula is established in such a way as to provide the first rate reduction by about 1970.

The U.S. affiliate of one of the member companies of Niagara Basic Power Users has been offered a substantial block of P.A.S.N.Y. industrial firm power to be delivered by the Niagara-Mohawk Power Corporation at initial rates of 4.6 to 4.8 mills per kilowatt-hour, gradually decreasing over a period of thirty years to 3.3 mills, the reduction occurring as the original bonds of the Power Authority are retired.

Pacific Northwest States

Large areas of the states of Washington and Oregon are supplied with power by the Bonneville Power Administration which has constructed major dams and hydro-electric generating facilities on the Columbia River.

These facilities have made an abundant supply of low cost power available in the area, thus attracting industries which are large users of electric power.

Over the years it has been possible for the Power Administration to negotiate long-term contracts with industrial users at attractive rates. This policy has continued and it is understood that recent contracts have been offered for twenty year periods. The rate level is the same as it was when the Power Administration first commenced distributing power more than twenty years ago.

Industries purchase power on long term contracts under the class known as 'transmission system firm power'. The rate for power at approximately 70 per cent load factor is 3 mills while the rate under this class for 100 per cent load factor is 2 mills. For industries with high load factor operations these rates are most attractive.

From the foregoing it can only be concluded that if industrial power rates in the Niagara area remain unfavourable the expansion and further development of these industries will have to take place outside of Ontario, and, if this happens, it is fair to predict that secondary industry will follow basic industry.

VII ASSISTANCE REQUIRED FROM THE GOVERNMENT AND HYDRO

In order to avoid having our industries expand their facilities outside Ontario, it will be essential that we receive assistance from the Government or Hydro or possibly from both. Some of our thoughts on the assistance that can be provided are set forth below:

- (a) We request that the Government accept the premise advanced by many that special considerations are necessary and can be provided for basic power-using industry by both Government and Hydro. It is well recognized that basic industry cannot be compared with municipalities in considering this question of power rates.
- (b) The precise method to be adopted can best be determined and identified by the Government and by Hydro. It should not be for this group to specifically point to the method to be adopted.
- (c) However, the following means have been suggested by this group in the past and are repeated again here:
 - (i) The determination of our rates based on separate costing of 25 cycle power and the continued maintenance of a 25 cycle system for our use. Assurance is requested of the continuance of 25 cycle power over a long period of time.

- (ii) Contracts with fixed rates for periods of ten years instead of the five years presently proposed by Hydro.
- (iii) Inclusion of reference to strikes in the 'force majeure' clause which waives the minimum bill provision of the contracts.
- (d) Reduction of power costs to this group is in effect relief from a penalty rather than a subsidy. We feel it is rather a continued recognition of the long established policy to provide power at absolute cost to heavy users located close to generation facilities so they can continue in business and continue to provide employment in the community.

VIII QUESTIONS OF HYDRO AND GOVERNMENT POLICY

Statements have been attributed to former Premier Frost that heavy power-using industry is not wanted in Ontario. It is important to our group of companies to know whether the above policy represents the attitude and sentiments of the present Government.

It has been demonstrated above that Hydro's policy of pooling costs and rates means that our group of companies is subsidizing the rates of municipalities and industrial users elsewhere in Ontario. It is important to us to know if it is the Government's wish that we continue to maintain this subsidization of other industry and, in some cases, subsidization of our competitors.

It is apparent from the many discussions which we have had with Hydro officials that they refuse to recognize our special circumstances. Rather, they tend to consider us as one of a very long list of customers without recognizing that we are basic industry, large users and at high load factors.

Whatever Government and Hydro are willing to do to assist our situation will be most welcome by us. We are willing to do our part and assist in any way possible towards this end. We have already suggested to the Honourable Minister of Energy Resources that our group be considered for representation on the Economic Council set up to advise the Minister on the economy of the Province. We repeat here our willingness to name a representative to the Economic Council should we be invited to do so.

